


Late Backup



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**TO:** Mayor and Council Members

**FROM:** Leslie Browder, Chief Financial Officer 

**DATE:** May 11, 2011

**SUBJECT:** Financial Analysis of Urban Rail and Capital Improvements Needs Assessment – Work Plan and Timetable

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Outlined below are the steps we are taking to analyze potential funding sources for an initial phase of urban rail, including an estimated timetable. Concurrently, we are undertaking a city-wide needs assessment to identify capital projects that are usually funded in whole or in part with general obligation debt. This information will help us prioritize the City's overall capital needs, given the limitations on funding that any public entity like the City typically faces.

**Potential Starting Phases and Cost Estimates** Using conceptual engineering cost estimates developed by URS Corporation ("URS") in 2010, the Transportation Department is in the process of identifying several potential first investment options for urban rail. Consistent with good practices in projecting future construction costs, the estimates reflect inflation through the midpoint of construction, and include line item and overall contingencies. In addition to estimating project capital costs, URS developed rough-cut projections of operating costs in their 2010 report. These estimates are based on an analysis of operating costs per vehicle revenue mile of existing urban rail type systems, which is appropriate at this point in the planning process. The Transportation Department's Central Austin Transit Study noted that "because rail transit, from streetcar to heavy rail, is a higher capacity mode than bus transit...labor costs are inherently lower for the same level of service."

We will be relying on these estimates as we develop various financing scenarios for urban rail, as well as relying on fare recovery estimates developed by the Transportation Department and project consultant, Austin Urban Rail Partners. The Transportation Department is working with the project consultant to determine whether any revisions to the 2010 estimates are needed. Efforts will be primarily directed at refining and updating the cost and revenue projections to reflect timing, phasing and any significant changes in assumptions that might be warranted given the current outlook in the construction industry. The Transportation Department expects to complete this work in the next couple of weeks, including the development of spending plans that will help determine when the necessary funding might need to be in place.

**Analysis of Potential Funding Sources** The analysis that is underway in Financial and Administrative Services will ultimately focus on a combination of major funding sources that could become available for constructing an initial phase of urban rail – federal funding (primarily the News Starts program), general obligation debt, and tax increment financing. There are other potential financial tools that we are exploring as well, although likely to produce a smaller revenue stream over time. These types of financing tools are often complex and come with certain conditions and restrictions, as is the case with tax increment financing. We will also attempt to take a conceptual look at new funding tools that might possibly be pursued legislatively at some future date.

Obtaining federal funds through the New Starts program, which is under the oversight of the Federal Transit Administration (FTA), is a multi-step, multi-year process, involving a series of reviews and rankings that concludes with the execution of a “full funding grant agreement” with the FTA and federal appropriation by Congress. A commitment of local funds must occur prior to the approval of federal funding. Austin’s urban rail proposal would be ranked and compared to other submittals from around the country; currently, there are approximately 100 projects nationally that are at the same stage in the process as Austin. As part of this effort, we will be more fully defining the specific steps associated with the federal funding process, and coordinating estimated timelines with the Transportation Department and the Government Relations Office.

Tax increment financing has been discussed as a potential funding mechanism for urban rail. While it provides a tool for dedicating property tax revenue generated within a geographical area, a source of backstop funding is frequently needed in the short term until the tax increment revenue grows. We will be working with the City’s financial advisor, Public Financial Management, to assess whether there are any low-cost, short-term funding mechanisms, such as a commercial paper program, that could be used to bridge such a gap. We also plan to have more in-depth discussions with our federal legislative representative about the viability of credit instruments available under federal programs like TIFIA (Transportation Infrastructure Finance and Innovation Act). We will also be researching innovative financing techniques that might help us in the future.

Regarding funding for the urban rail capital costs, our analysis related to any future debt issuance will encompass the estimated impact on the tax rate and median tax bill, as well as the impact on debt and other ratios that rating agencies typically examine when local governments are contemplating major bond programs.

Beyond the capital financing of urban rail development, funding the ongoing costs of future urban rail operations needs to be part of this analysis. This analysis must entail discussions about how the system should best be operated if undertaken. As the financial analysis nears completion and we are better able to gauge affordability, we can have more meaningful discussions with potential funding partners.

**Coordination with City-Wide Capital Needs Assessment** On April 18<sup>th</sup>, we kicked off our City-wide needs assessment process and project submittals are due in early June. The results of the needs assessment will be reviewed with the City Manager and his team in late June. During July, the City Manager’s team will work to prioritize and refine the projects identified by our department directors, likely resulting in a scaled down listing of needs that aligns more closely with estimated resources.

As the last step in our analysis and similar to the analysis that we outlined above for urban rail, Financial Services staff will assess the estimated overall impact on the tax rate and median tax bill of several potential bond program sizes. Again, we will also provide the estimated impact on debt and other ratios that rating agencies examine when local governments are contemplating major bond programs.

The pages that follow this memorandum include a calendar for the work that we have outlined above, as well as the major steps associated with the New Starts federal funding process. We plan to apprise Council of the results of this analysis during the months of September and October, depending on work session schedules. At an earlier work session, we will lay out the major elements of the New Starts federal funding process and possible timing.

CC: Marc A. Ott, City Manager  
Robert Goode, Assistant City Manager  
Rob Spillar, Transportation Director  
John Hrncir, Government Relations Officer  
Mike Trimble, Capital Planning Officer

Attachment

### Financial Analysis and Capital Needs Assessment

| <b>Deliverables</b>  | <b>Timing</b>         |
|--|-----------------------|
| Deliverables and timing of urban rail financial analysis and capital needs assessment to City Council  | May                   |
| Transportation Department updates estimates of construction and operating costs, fare recovery for 2–3 possible initial urban rail phases  | May                   |
| Financial analysis and modeling  | Ongoing               |
| Presentation at Council work session on New Starts federal funding process   | June                  |
| Departments complete assessment of capital project needs   | June                  |
| City Manager's team reviews and prioritizes city-wide capital needs  | July                  |
| Presentation(s) to Council covering: <ul style="list-style-type: none"> <li>• urban rail financial analysis</li> <li>• process and timeline for seeking federal transit funding</li> <li>• city-wide capital needs assessment and recommendations regarding priorities</li> <li>• <i>debt modeling related to a future general obligation bond proposal</i></li> </ul> | September/<br>October |

### Major Steps in Seeking Federal Transit Funding

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| FTA Decision on Entry into Preliminary Engineering <ul style="list-style-type: none"> <li>• Alternatives Analysis</li> <li>• Financial Plan</li> <li>• Project Management Plan</li> </ul>  |
| FTA Decision on Entry into Final Design <ul style="list-style-type: none"> <li>• 50% of local funding committed</li> <li>• Completion of NEPA / Publication of Record of Decision (ROD)</li> <li>• Project reaches 85% design</li> </ul> |
| Full Funding Grant Agreement with FTA  |
| Federal Appropriation  |